MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BFN2114 – INVESTMENT

(ALL SECTIONS)

13 OCTOBER 2018
2.30 p.m. - 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 6 pages with **TWO** sections.
2. Answer **ALL** questions in **Sections A and B.** The marks for each section are given in the question paper.
3. Please write your answers for Section A and B in the answer booklet.

SECTION A (40 marks): Answer ALL questions. Choose the best answer. Each question carries 2 marks.

Q1. In a price weighted average stock market indicator series, the following type of stock has the greatest influence

a. The stock with the lowest price
b. The stock with the highest price
c. The stock with the lowest market capitalization
d. The stock with the highest market capitalization

Q2. Assume that a stock price-weighted indicator consisted of the four issues with their prices as shown below. What are the values of the stock indicator for Day T and T+1 and what is the percentage change?

	Number of shares	Closing Prices (per share)	
Companies	**outstanding**	**Day T**	**Day T + 1**
1	2,000	$30.00	$25.00
2	7,000	55.00	60.00
3	5,000	20.00	25.00
4	4,000	40.00	45.00

a. 100; 106.9; 6.9%
b. 106.9; 100; -6.9%
c. 36.25; 38.75; 6.9%
d. 38.75; 36.25; -6.9%

Q3. A statistic that measures how two variables tend to move together is the _____.

a. Mean
b. Standard deviation
c. Coefficient of variation
d. Correlation coefficient

Q4. If you believe in the _____ form of the EMH, you believe that stock prices reflect all relevant information including historical stock prices and current public information about the firm, but not information that is available only to insiders.

a. Weak
b. Semi-strong
c. Strong
d. Weak and semi-strong

Continued...

Q5. _____ focus more on past price movements of a firm's stock than on the underlying determinants of future profitability.

a. Credit analysts
b. Fundamental analysts
c. Systems analysts
d. Technical analysts

Q6. Studies of stock price reactions to news are called _____.

a. reaction studies
b. drift studies
c. event studies
d. reaction and event studies

Q7. A support level is the price range at which the technician would expect a substantial _____ in the _____ for a stock.

a. Increase; supply
b. Decrease; supply
c. Increase; demand
d. Increase; supply

Q8. _____ measures the number of issues increased and the number of issues declined each day.

e. Breadth of market
f. Volume
g. Bull Market
h. Breakout

Q9. A top down analysis of a firm starts with _____.

a. Company analysis
b. Industry influences
c. General economy influences
d. All of the above

Q10. A trough is _____.

a. a transition from an expansion in the business cycle to the start of a contraction
b. a transition from a contraction in the business cycle to the start of an expansion
c. a depression that lasts more than three years
d. only something used by farmers to feed pigs and not an investment term

Continued...

Q11. If the economy were going into a recession, an attractive industry to invest in would be the _____ industry.

a. automobile
b. medical services
c. construction
d. None of the above

Q12. A firm in the early stages of the industry life cycle will likely have _____.

a. high market penetration
b. high risk
c. rapid growth
d. rapid growth and high risk

Q13. You wish to earn a return of 13% on each of two stocks, X and Y. Stock X is expected to pay a dividend of $3 in the upcoming year while Stock Y is expected to pay a dividend of $4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. The intrinsic value of stock X _____.

a. will be greater than the intrinsic value of stock Y
b. will be the same as the intrinsic value of stock Y
c. will be less than the intrinsic value of stock Y
d. None of the above

Q14. High Speed Company has an expected ROE of 15%. The dividend growth rate will be _____ if the firm follows a policy of paying 50% of earnings in the form of dividends.

a. 3%
b. 4.8%
c. 7.5%
d. 6%

Q15. Using the information given in the table below, what is the required rate of return for Stock X and Stock Y based on the capital asset pricing model (CAPM)?

Investment	Beta	Analyst's Estimated Return
Stock X	2.0	15.0%
Stock Y	1.5	13.6%
Market Portfolio	1.0	10.0%
Risk-free rate		4.0%

a) 16%; 13%
b) 15%; 13.6%
c) 15%; 16%
d) 13%; 13.6%

Continued...

Q16. The goal of fundamental analysts is to find securities _____.

a. whose intrinsic value exceeds market price
b. with a positive present value of growth opportunities
c. with high market capitalization rates
d. All of the above

Q17. In the maturity stage of the industry life cycle, _____.

a. the product has reached full potential
b. profit margins are narrower
c. producers are forced to compete on price to a greater extent
d. All of the above

Q18. The life cycle stage in which industry leaders are likely to emerge is the _____.

a. start-up stage
b. rapidly accelerating growth stage
c. mature growth stage
d. stabilization and market maturity stage

Q19. The dividend payout ratio for the aggregate market is 55 percent, the required rate of return is 15 percent, and the expected growth rate for dividends is 7 percent. Compute the current earnings multiple.

a. 6.39
b. 78.6
c. 6.88
d. None of the above

Q20. To estimate earnings per share an analyst will start by estimating

a. Number of shares outstanding
b. Sales
c. Profits
d. Free Cash Flow

Continued...

SECTION B (60 marks): Answer ALL questions.

Question 1 (20 marks)

a) Discuss what is meant by an efficient capital market. You have subscribed to an investment magazine from a reputable publishing house that provides the latest news and trends in the Malaysian stock market. Based on the most updated information in the magazine, you find that it is advisable to sell construction stocks. If the market is weak-form efficient, discuss whether you will be able to benefit from this information.

(10 marks)

b) Given the data below, calculate the 5-day moving average for each trading day. Also, identify the buy and sell signals, if any.

Trading Day	Price of Stock A
1	21.88
2	22.5
3	23.13
4	23.88
5	24.5
6	24
7	23.5
8	23
9	23.88
10	24

(10 marks)

Question 2 (20 marks)

a) List the five stages of the industry life cycle. How does analysis of industries by stage in the life cycle be useful to an analyst?

(8 marks)

b) Explain how the investors risk levels differ at the start up stage and at the maturity stage.

(12 marks)

Continued...

Question 3 (20 marks)

a) What are the assumptions of the dividend growth model (DDM)? Discuss under what conditions you would use the two or three-stage growth model rather than the constant growth model.

(8 marks)

b) Stocks of companies in the construction industry provide an expected return of 16%. ABC Corporation is a large construction company which will pay a year-end dividend of RM0.50 per share. If the stock is selling at RM5.00 per share, what must be the market's expectation of the growth rate of ABC Corporation's dividends?'

(5 marks)

c) If the dividend growth forecasts for ABC Corporation are revised downward to 4% per year, what will happen to the price of ABC stock? Assuming the forecast for current year's earnings remains the same, will the company's price-earnings (P/E) ratio increase, decrease or remain the same?

(7 marks)

End of Page